MONEY

FEDERAL RESERVE BANK OF PHILADELPHIA

DECEMBER

1958

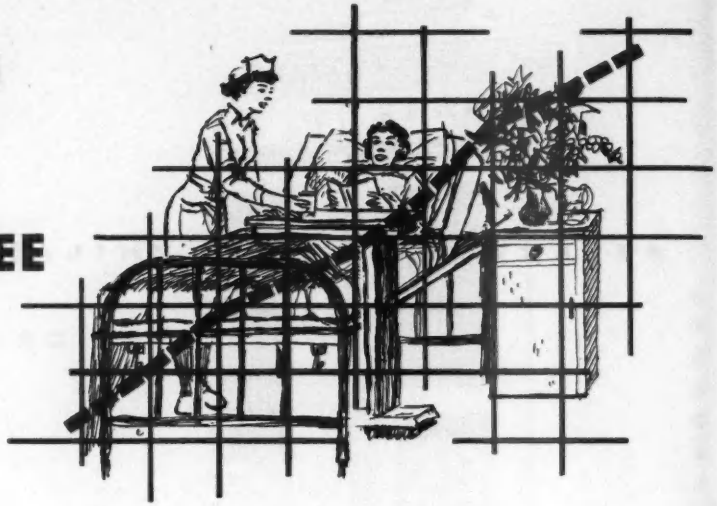
health isn't free

a new capital pipeline for small business

christmas buying looks good

business review

HEALTH ISN'T FREE



When you first become vaguely conscious of a feeling of discomfort somewhere in the equatorial region you are inclined to ignore it. If the discomfort degenerates into a nuisance or a pain that aspirin tablets no longer dispel, you reluctantly consult a doctor. After a professional pummeling and poking, the doctor finds the cause of your trouble. It has a Latin name, and requires immediate surgery says the doctor with profound gravity. Your face betrays even greater gravity as you exclaim, "An operation!" And so, for the first time in your life, you enter a hospital carrying a valise instead of a bouquet.

On going to a hospital

On checking in at the hospital, there is a long questionnaire to be filled out. Cavalierly, you answer all the questions—just a matter of routine—except the one about who is your next of kin.

You are not expected to tip the nurse who conducts you to your room. She tells you to get undressed, go to bed, and promptly disappears. Apprehensively, you await the surgeon with his kit of tools, but nothing happens. Just about the time you conclude that you have been forgotten, a succession of nurses appears—one to lead you to the scale for a weighing, another to take your temperature and pulse, another to take your blood pressure, and the needle nurse to get samples of your blood.

After another long period of apparent neglect, comes a squad of nurses with a rig that looks like a portable filling station after it is assembled. Your hunch was right. The juice flowing by little drops into your blood stream is glucose and saline—an energy reinforcement and a shock absorber. About the time you are fueled up, the surgeon makes his appearance. He engages you in cheerful conversation and avoids all shop talk

except to say that you will have your operation at 8 o'clock tomorrow morning and that you will not be given any breakfast. After a loudspeaker announcement asking all the visitors to leave the hospital, a nurse hands you a paper cup and a small capsule, designed to help you to fall asleep.

The capsule made short work of the night. A pair of nurses in spotless uniforms gives you full attention. Another capsule and another needle and you get dressed up for the party with the queerest toggery you ever saw. The queerest toggery you ever . . . the queerest toggery you . . . the queerest tog . . . the queerest . . . the queer . . . the . . .

It is most uncomfortable to be lying on a steeply slanted roof on top of a tall building with a tin sheet for a cover and no pillow. But there you lie at a dizzy height—way, way up. Way up, "Wake up!" says the nurse standing beside your bed, and you ask why all the delay, why didn't they perform the operation, and she tells you that it's all over. Then why can't you be let alone? Why the brushing of teeth and the bathing fetish? You will surely come apart if the nurse insists on going through with the bathing ceremony! With persistence on the part of the nurse and no cooperation on your own, bathing is completed and, miraculously, you have not come apart.

The days of convalescence get longer and longer, especially after you graduate from the horizontal to the vertical. The body has long since recovered from the shock of surgery, and finally comes the day when the surgeon says you may go home. When you check out, there is another shock—the bill. At $18 a day for so many days, the largest item is likely to be room service. Then there are numerous extras, such as laboratory fees, drugs, operating room, anesthesia, X ray, and perhaps blood service, physiotherapy, oxygen, and surgical dressings. The total bill may be $500 or more. Nor is that the end.

Some time later, during convalescence at home, you receive in the mail another shock—the surgeon's bill. That may be $300, more or less, depending upon the nature of the surgery. Not counting loss of income through absence from the job, the operation may cost $800—a serious blow to the family budget.

Everyone is a potential hospital patient. In the course of a year, at least one out of ten persons becomes a bed case for medical attention. Prior to the first time you land in a hospital, you probably had regarded yourself as a superman—perpetual strength in perpetual motion. Hospitalization teaches you that the body you live in is a fragile retort of flushing chemicals and fleeting emotions. With the help of enforced rest the human body usually recovers very nicely from the physical shock of surgery.

Recovery from the psychic shock to the pocketbook-nerve is achieved by some people through the purchase of health insurance. About 70 million people are insured against the hazard of hospital expenses. Under these policies the insurance companies indemnify the beneficiaries for hospital expenses incurred. Another form of protection, perhaps less well known, is Blue Cross.

BLUE CROSS

Blue Cross is a prepayment program between a number of hospitals which offer their services and a large number of people who want protection on a regular basis against the hazard of hospital bills. It is a nonprofit corporation which removes most of the money worries of hospitalization. The basic principle of Blue Cross is a service contract—that is, one providing benefits, not dollars, coupled with a Blue Cross member hospital contract, under which payment is made to the hospital for the service benefits guaranteed

by them. It is a prepayment plan whereby the subscribers buy their hospital service when they are well so as to reduce the shocks of money worries when they are ill.

How it works

Blue Cross is no Santa Claus, but another form of protection utilizing the insurance principle. The subscriber pays for what he gets, and the payments are made in advance in manageable monthly installments, and the payoff comes on the day of adversity.

The subscriber may buy the hospital service by entering into an individual contract with Blue Cross or he may subscribe as a member of a group—usually the firm or company he works for. Under the group subscription plan, a single remittance is customarily made by the firm for all of its employee-subscribers, and some firms absorb part or all of the cost on behalf of their employee-subscribers.

Monthly payments under the group plans range from slightly over $2 for individual protection to approximately $7 for family protection, where all members of the family are covered. Rates vary with the type of contract and in Pennsylvania are subject to review and adjudication of the State Commissioner of Insurance.

The benefits to subscribers, depending on the contract, cover most of the hospital costs such as semi-private room, meals, nursing service, operating room charges, drugs, anesthetics, electrocardiograms, laboratory fees, etc. Subscribers under a group plan need not terminate their hospitalization service upon retirement. Upon payment of the going rates, subscribers may continue their Blue Cross protection through the period of retirement. This is a particularly attractive feature because the need for hospitalization usually increases with age.

Blue Shield applies to major doctor bills, which frequently account for about half the cost of a prolonged illness. Blue Shield, though a separate organization, works like Blue Cross with which it is closely associated. Blue Shield is assisted by Blue Cross in the collection of monthly installments from subscribers and in the remittance of payments to doctors and surgeons for services rendered to Blue Shield subscribers.

A prodigious growth

Blue Cross has had a phenomenal growth in the comparatively short period since its inception. No one knows when he will need hospital care nor what it will cost him. The hospital bill for one patient with heart disease may be $250 and for another with the same disease it may be $2,500. The amount depends upon the procedures required for proper treatment, the drugs administered, the length of stay, and many other factors —all beyond the patient's control.

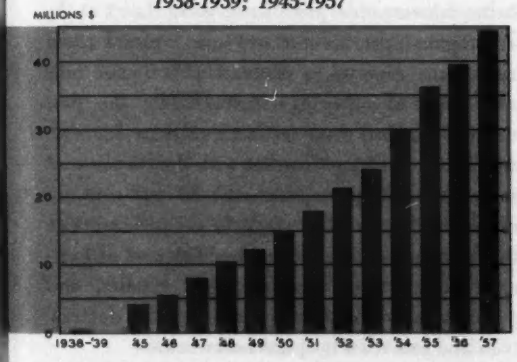
In 1932, a National Committee on the Costs of Medical Care discovered that 50 per cent of the cost of all medical care in the United States was incident to hospitalized illness or disabilities. Furthermore, it was found that the 10 per cent of the people who are hospitalized each year had to bear 50 per cent of the medical care costs for that year. These are the reasons for the widespread acceptance of the Blue Cross plan for providing hospitalization under which payment is made to the hospital for the service benefits guaranteed by them.

The Associated Hospital Service of Philadelphia was started in 1938, with an office force of five people, a typewriter, borrowed furniture, a box of pencils, and a $30,000 loan. Today, Blue Cross of Philadelphia occupies eight floors of a 12-story building it owns in central city; has 550 employees, a telephone switchboard with 73

trunk lines, a teletype system, electronic data processing machines, and a forest of files. All this is required to accommodate its 2¼ million subscribers and the 85 member hospitals in the Philadelphia metropolitan area. Payments to hospitals on behalf of subscribers rose steadily from less than $5 million in 1945 to approximately $45 million in 1957. Payments in 1957 averaged $122,000 every day of the year. In the twenty years of operation, Blue Cross has paid out over $300 million of hospital bills for approximately 3 million subscriber cases who have benefited by receiving hospital care. In 1938, the Mayor of Philadelphia took out the first membership card. Now, 68 per cent of the population of Greater Philadelphia is covered by Blue Cross.

HOSPITAL CARE PROVIDED

The Associated Hospital Service of Philadelphia 1938-1939; 1945-1957



The Lehigh Valley Blue Cross has had a similarly rapid rate of growth during its comparatively short period of existence. Its membership grew from 26,000 in 1940 to almost 350,000 in 1957, and hospital claims paid since 1940 rose from less than $100,000 to approximately $6½ million. Wherever Blue Cross hospital protection is available, people are quick to take advantage of its facilities.

It is significant that there are more than 80 nonprofit Blue Cross Plans throughout the United States, serving over 55 million subscribers. All Blue Cross Plans must meet the requirements of the American Hospital Association. All of them render service benefits, as distinguished from cash indemnities. Their boards of directors include representatives of hospitals, the medical profession, and the public, and directors serve without pay. Within a period of 25 years, payments of hospital bills for subscribers of Blue Cross Plans rose from $15,000 a year to more than a billion dollars in 1957. This is a rate of growth few industries can match.

SOME HOSPITAL ECONOMICS

Maintenance of the country's 7,000 hospitals costs the American people $5½ billion annually, and they have more than $12 billion invested in them. Blue Cross does not own or run any of these institutions, but it has a direct interest in the voluntary hospitals which serve its subscribers whose bills it pays.

Hospitals are indispensible but peculiar institutions with a strange history. Originally, our hospitals were charitable institutions for the down and out. Now they are health-restoring centers for the down and in.

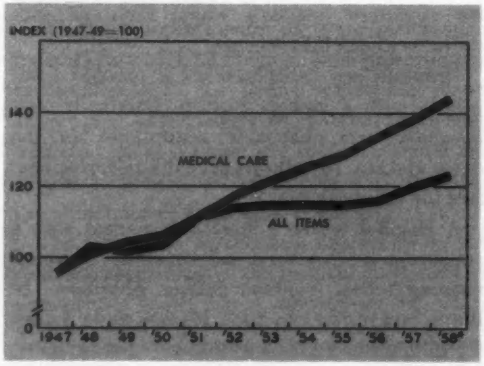
A hospital is like a hotel that merged with a restaurant, a laboratory, and sometimes a nurses' training school, medical college, pharmacy, library, and nursery to boot. It takes quite a variety of skills to manage a hospital—bookkeepers, engineers, dieticians, doctors, dishwashers, maids, nurses, laboratory technicians, surgeons, physiotherapists, internes, elevator operators, etc. The doctors are not under the control of the hospital but they decide who is to be admitted, how long each patient is to stay, and the nature of the treatment. Thus, medical practitioners exert con-

siderable influence over the expenses incurred by these institutions, as they must. It is a rare hospital indeed that does not have a shortage of beds, nurses, rooms, ice water, and money, and an abundance of patients, visitors, flowers, hypodermics, and complaints. Running a hospital requires a depth and breadth of understanding that is out of this world. The manager ought to be a doctor of medicine, law, psychology, economics, bacteriology, engineering, dietetics, sociology, and backing-up drain pipes. The wonder is that hospitals run as well as they do.

The cost of medical care

Medical care costs money, and in recent years it has been costing more and more. The costs of services, as distinguished from goods, are usually slow in responding to economic developments, but when they rise, they soar. The cost of medical care more or less paralleled the rising cost of living in the early postwar years, as shown in the chart. After 1951, however, cost of medical care rose much faster than the over-all cost of living and now the cost of medical care is 44 per cent above the 1947-1949 base, in contrast with the consumer price index which is 23 per cent above the base. Moreover, it is somewhat disturbing that the rising cost of medical care shows no signs whatsoever of letting up despite the fact that it costs $1.44 to buy the medical care that cost only a dollar a mere decade ago.

COST OF MEDICAL CARE



Source: Bureau of Labor Statistics *Estimated

Since 1947, the cost of medical care has gone up faster than any of the other major items in the consumer price index except transportation. As the bar chart shows, the cost of apparel rose least, and transportation most, but the cost of medical care rose far more than six of the major items in the consumer price index portrayed in the chart.

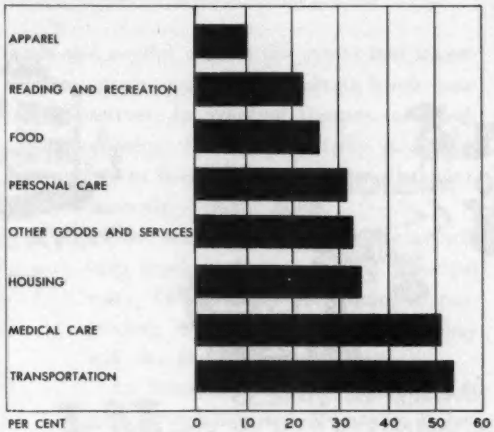
Doctor bills and hospital bills

When illness strikes, people are prone to growl and grumble about doctor bills, but those whose illness lands them in the hospital have a much better conversation piece for griping. Look at the accompanying table and see how hospital room rates have gone up in contrast with doctor bills and costs of other services. During the past decade, hospital room rates more than doubled, which is in striking contrast with the 26 per cent increase in surgeons' fees, the 34 per cent increase in dentists' fees, and the 39 per cent rise in fees of general practitioners. The cost of haircuts, laundry service, automobile repairs, and public transportation all rose more than doctors' bills and less than hospital room rates.

YOU CAN'T PAY BILLS WITH INDEX NUMBERS

"The medical care index, like the whole of the Consumer Price Index, is designed to measure only the change in price for items of *the same quality and quantity customarily bought* by urban wage-earner and clerical-worker families." So says the Bureau of Labor Statistics which

CHANGES IN MAJOR COMPONENTS OF THE CONSUMER PRICE INDEX 1947-1958*



Source: Bureau of Labor Statistics *Estimated

created and maintains the index. The italics are our own, for thereby hangs a tale of considerable moment to hospitals, doctors, Blue Cross, and all people served by them.

Someone has said that hospital care today is as different from such care fifteen years ago as today's aircraft differs from that fifteen years ago. Medical science has not been standing still. Although hospitals do not practice medicine, they supply the housing, machinery, tools, and all the other supplies and facilities required by the doctors who practice medicine within their walls with ever-advancing technology. A complicated piece of machinery like an artificial heart or an artificial kidney, which keeps a patient alive while the surgeon is operating on the organ, may cost $300 just to set up the machine and run it while the surgery is being performed.

Hospitals are constantly being called upon to perform a variety of services. Surgery is not the only function. Hospitals are offering increased diagnostic and treatment services. They are called upon for more private and semi-private accommodations; they are performing more out-patient service; they have expanded programs of medical and nursing education, and also have expanded programs of public education. These are all necessary functions but it costs money to perform them.

Hospital costs go up or down with fluctuations in occupancy. In a hospital, the unit of production is the bed occupied by a patient; an empty bed produces no revenue and it entails overhead costs that must be borne by the patients receiving care. The ideal situation would be to have all beds occupied all of the time, but a hospital just cannot schedule production like a cheese factory.

Improvements in diagnostic and treatment procedures have shortened the average length of stay of patients, and that likewise contributes to higher per diem costs. Higher bed turnover, to borrow a term from industry, increases nursing costs and housekeeping expenses.

Rising salary and wage levels are major causes of increasing hospital costs. Hospitals must compete with industrial and commercial concerns in the general labor market to get their complement of employees with diversified skills and talents,

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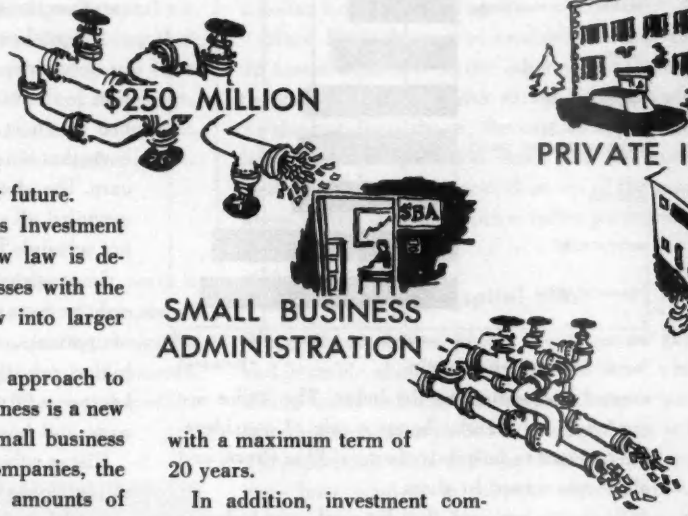
PERCENTAGE INCREASES IN COST OF MEDICAL AND OTHER SERVICES, 1947-1957

B.L.S. Item	Index (1947-1949 = 100)		
	1947	1957	Percent increase
Hospital room rates	87.4	187.3	114
Public transportation	88.6	178.8	102
Men's haircuts	94.3	159.3	69
Laundry service	94.2	137.4	46
Automobile repairs	95.5	139.7	46
General practitioners' fees	96.9	134.5	39
Dentists' fees	95.2	127.4	34
Movie admissions	98.4	130.5	33
Shoe repairs	97.1	125.6	29
Surgeons' fees	96.2	120.9	26

A NEW CAPITAL PIPELINE



Small business, oftimes pictured as the poor relation of American free enterprise, is in line for some additional financial help in the near future. Congress passed the Small Business Investment Company Act last August. The new law is designed to help supply small businesses with the long-term funds they need to grow into larger businesses.

The keystone of this most recent approach to the problems of financing small business is a new kind of financial institution—the small business investment company. Investment companies, the legislators hope, will attract large amounts of private capital and channel it into many of the nation's four million or so small businesses.

The Small Business Administration (SBA), which is administering the program, recently issued its regulations. It is now accepting applications from would-be investment companies. The first licensed companies will probably begin operating early in 1959.

INVESTMENT COMPANIES FOR SMALL BUSINESS

Ten or more persons may form a small business investment company. Each company must have a paid-in capital and surplus of at least $300,000.

An investment company may get up to $150,000 of its minimum capital requirement by selling subordinated debentures to the SBA. The SBA will charge 5 per cent interest for these funds with a maximum term of 20 years.

In addition, investment companies will be able to borrow from the SBA up to 50 per cent of their paid-in capital and surplus. These loans will also carry an interest charge of 5 per cent and have a maximum term of 20 years. The SBA has indicated, however, that it will primarily make short-term loans. Investment companies will be able to use the loan funds as cash reserves until they are able to build up sufficient capital of their own.

Investment companies will, of course, be able to borrow from private investors also. In total, they may normally borrow up to $4 for every $1 of capital and surplus.

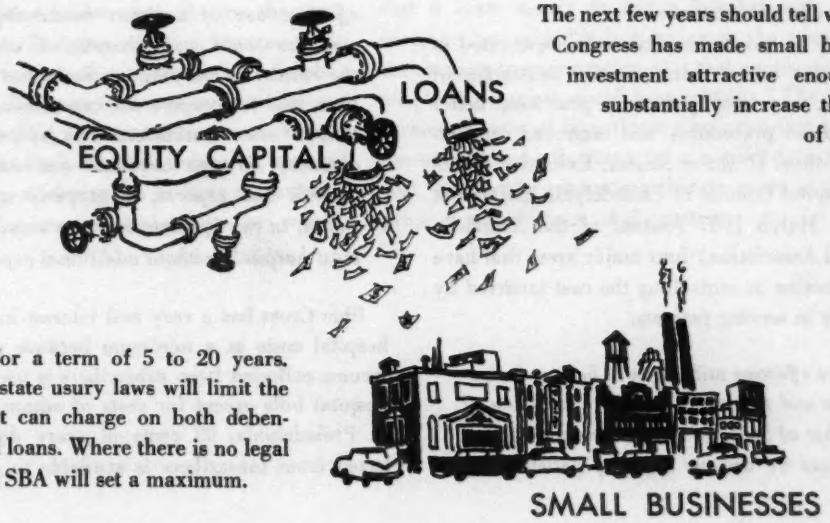
Congress has authorized $250 million under the new law. It is clear from recent statements that SBA is going to make this money go as far as possible. It has put the emphasis, in its regulations, on private financing. It will provide loan

INE FOR SMALL BUSINESS

funds and capital only to the extent that investment companies are unable to obtain funds from private sources. In granting licenses to investment companies, it will undoubtedly give preference to those that contemplate the minimum use of public funds.

The new investment companies will help small businesses in two principal ways. They will provide capital by purchasing convertible debentures. They will also make long-term loans.

An investment company can, when it wishes, exchange the debentures it has purchased for stock. Its loans will usually be for a term of 5 to 20 years. Existing state usury laws will limit the interest it can charge on both debentures and loans. Where there is no legal limit, the SBA will set a maximum.



TO REDUCE THE RISK AND INCREASE THE RETURN

Through several related tax provisions, Congress has reduced the risk of investing in small business and, to a still undetermined extent, increased the possible return.

The tax laws now permit small business investment companies to treat losses on convertible debentures and stock as ordinary loss deductions instead of capital losses. Furthermore, owners of investment companies may treat losses on investment company stock in the same manner.

Tax modifications have also increased the potential return. The dividends an investment company receives from stock it holds in small businesses are completely exempt from the corporate income tax. And there are other new tax benefits for small businesses themselves that will indirectly accrue to investment companies.

The new pipeline will soon be in place. The next few years should tell whether Congress has made small business investment attractive enough to substantially increase the flow of capital.

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and as a result of rising wage-salary scales generally, hospitals are under constant pressure of rising costs to get and keep adequate staffs.

Still another cause of rising hospital costs is the readier disposition of a rapidly growing population to utilize hospital services when needed. Scarcely a generation ago, people were scared of hospitals and shied away from them like the plague. Indeed, there was a time when, in the opinion of some people, hospitals delayed rather than hastened the restoration of the health of its patients. In this generation, however, it is the rare person who does not accept hospitalization on recommendation of his doctor; the annual in-patient admission rate has increased from 8 to 12 per cent of the total population.

Curbing the costs

As might be expected, no two hospitals are alike nor are their cost curves alike. Identical treatment of identical cases may cost 30 to 40 per cent more in one hospital than in another. Variations in cost arise from differences in age of buildings and equipment and differences in managerial policies and performance.

Efforts to reduce hospital costs are exerted in four major areas: more effective utilization of facilities, improved personnel practices, better procurement procedures, and improved accounting practices. C. Rufus Rorem, Executive Director, Hospital Council of Philadelphia, points out (in the March 1957 *Journal* of the American Hospital Association) four major areas that have been effective in controlling the cost incurred by hospitals in serving patients.

"More effective utilization of beds and diagnostic and treatment facilties (reduction of number of beds per room to permit alternative use by various types of patients; increased special services to vertical patients referred for study and treatment by physicians; better scheduling of admissions, discharges and professional procedures to avoid the necessity of expanded facilities for beds and scientific equipment.)

"More effective use of professional and institutional personnel (the employment of practical nurses, aides and technicians to perform certain functions under the direction of professional nurses.)

"More scientific procurement and use of supplies and materials (the adoption of uniform standards to permit large-scale buying for departments; simplification of sizes and types to reduce manufacturers' cost; joint buying of commodities where specifications can be applied to generally used items; systematic storage and issuance procedures; group conferences and action among hospital purchasing agents concerning purchasing methods; standards of quality, delivery schedules, etc.)

"Uniform accounting and statistics. More effective use of uniform accounting and statistics would enable hospitals to appraise the results of varying methods and practices, and to compare the experiences with those of other institutions. The information obtained through adequate and uniform records and reports, if properly applied would, in my opinion, increase services in most hospitals without additional expense."

Blue Cross has a very real interest in keeping hospital costs at a minimum because all of its income collected from subscribers is used to pay hospital bills except for costs of administration. In Philadelphia, 93 cents of every dollar collected from subscribers is available to pay hos-

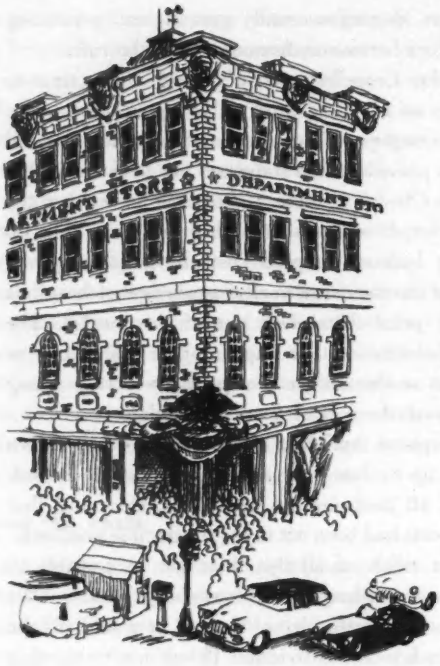
pital bills.

Some people say that Blue Cross Plans, by their very nature, promote unnecessary hospitalization, that some doctors either on their own or under pressure of their patients are too quick to send patients to hospitals and too slow to discharge them. The problem, whatever its magnitude, is a medical problem and should be solved by the medical staff. Doctors themselves should and must decide what is best for their patients. Concerted efforts are being made to eliminate the abuses of Blue Cross privileges. Blue Cross has tightened its contract provisions with subscribers. The Pennsylvania Insurance Commissioner has authorized Blue Cross Plans to make expenditures for instituting reforms to eliminate abuses in the use of hospital care.

Blue Cross of Philadelphia has given widespread publicity to an effective plan devised by the Sacred Heart Hospital of Allentown for the elimination of unnecessary use of hospital facilities. In order to eliminate Blue Cross "boarders," that hospital set up a plan for admitting patients based upon the degree of urgency, and systematic procedures were established to shorten the stay of each patient. The plan includes features such as quicker transfer of patients to specialists, scheduling of X-ray and laboratory tests before admission, speeding up requests for consultation, moving up the check-out time before 11 a.m. to save a day's room charge, no shifting of patients from private rooms to semi-private or wards where shortages usually prevail, and penalizing doctors for nonconformance with the rules.

Blue Cross rates have gone up from time to time as a consequence of rising hospital costs, increased use of hospitals, and improved hospital care provided. The statement has been made that Blue Cross is in danger of pricing itself out of the market. Blue Cross rates, however, have gone up only because hospital costs have gone up; so what the statement really means is that hospitals may price themselves out of the market. The probability of that happening is just about as great as the chance that people will stop eating because the cost of food is too high.

Suppose that all of our hospitals were modern and up to date, that all were adequately staffed, that all inefficiencies were eliminated, and that all costs had been cut to the irreducible minimum. As a result of all this, it might be possible to reduce your hospital bill materially. Whatever the reduction in the size of the bill, it would still be a shock to the individual. This is not to say that unnecessary costs should be tolerated, but there is no escape from the simple and obvious truth that it costs money to run a hospital and, as someone has said, "It isn't so much the cost of the thing as the uncertainty of it that causes most people to complain about hospital bills." The insurance feature of Blue Cross eliminates that big uncertainty and substitutes for it a small constant cost. For family protection, that amounts to the price of a daily pack of cigarettes.



CHRISTMAS BUYING LOOKS GOOD

This year's Christmas buying season at department stores in the Philadelphia Federal Reserve District seems to be going well. And, unlike last year, holiday business was preceded by a period of many weeks in which sales were an element of considerable strength in the local economy.

For this District as a whole, dollar volume at department stores was maintained above 1957 levels in all but two weekly periods from July through November. Moreover, in better than half of these weeks the margin of increase over 1957 ran to 5 per cent or more.

Pre-season spending patterns changeable

Although the pattern of consumer spending in this whole period seemed to indicate a preference for soft goods lines, the late summer and early fall brought an encouraging improvement in the demand for some durables, including major appliances, television, and the recently introduced stereophonic sound equipment. This trend was apparent in the breakdown of department store figures and it was hopefully mentioned by many of the appliance dealers with whom we discussed the situation.

For a time it looked very much as though 1958 might be much more of an appliance Christmas than 1957 turned out to be. But, after October, consumer buying interest in these "big ticket" durable items seems to have waned. Some de-

partment store executives and appliance dealers, particularly those in our smaller metropolitan areas, remained optimistic as the Christmas season approached. However, a marked diversity of opinion has developed and many of our merchants are expressing doubt as to just how much appliances, television, and similar expensive equipment will contribute to the Christmas sales totals.

This renewed hesitancy of consumers (they are Christmas shoppers now) to commit themselves to a heavy expenditure for a single item is in line with the latest findings of the University of Michigan's Survey Research Center. This report, covering conditions in the country as a whole, noted a surge of consumer optimism beginning just after mid-year. But it also established the fact that this optimism was tempered with caution when it came to making expenditures for the more costly durables, including appliances.

Shopping vs. buying

Thanksgiving, by tradition, marks the beginning of the Christmas shopping season everywhere. And on the day following, it is "situation normal" for retail merchants to play host to the crowds of shoppers intent on examining all the wares that are offered. Sometimes these preliminaries take many days. That is how it was last year. But this 1958 season seems to be shaping up differently.

Many of the department store executives we have talked with lately tell us that buying is going hand-in-hand with shopping. Their impressions of early season business suggest a higher rate of sales than in the same period last year. In some cases a store-wide promotion sale has opened shoppers' pocketbooks. But for the most part people are not just bargain hunting; this year's crop of Christmas shoppers appears more anxious to purchase their gifts early. Perhaps they remember the last-minute crush that wound up a record 1957 Christmas season.

Price consciousness in many places

It would be most unusual if shoppers did not take a second look at a price tag now and then. They are acutely aware that consumer prices continued to rise during the recession and early recovery and have only recently leveled off. And if a gift can be bought somewhere for less, that's where they will go. So our merchants have to be careful about markups on this season's merchandise. The competition is keen everywhere and in just about all departments.

Selections in gift merchandise

Some merchants tell us it is a little early to define trends in strictly gift merchandise. Others say business in what might be called luxuries is already in the limelight. But that does not necessarily mean expensive luxuries. These articles usually are not purchased in quantity until much later in the season. The term as used here must be defined more nearly as items ordinarily in greatest demand at Christmastime.

As might be expected, sportswear and a wide range of merchandise peculiar to sporting goods departments are said to be having a pretty good fling right now. Furniture seems to be the chief "big ticket" item moving in many of our metropolitan area department stores. Small appliances like toasters, clocks, and portable radios are said to be selling well. But, in all fairness, it should be mentioned that in some cases these items have been competitively priced and so advertised to serve as early season drawing cards.

To be sure, toys are a leading item everywhere at this time of the year. But some of our department store executives appear not too happy with

the response so far. Except for the major appliances, television, and the like, toys appear to be about the most competitive item on the Christmas market. Many retailers, regardless of their regular lines, accumulate a wide assortment of toys at this season. As the competition sharpens, discounts increase, and prices fall by the wayside. In this respect the 1958 Christmas buying season is not too different from any other.

How the season stacks up

There was scarcely a merchant among those we talked with who did not say this season's business *should* come up to that of a record 1957. In fact, it would be a defeatist attitude for almost any retailer to see anything unusual about Christmas sales going on and on to set new records year after year. Yule sales are important to all of them, because such a large percentage of a full year's business normally falls in the weeks between Thanksgiving and Christmas. In the case of our department stores that ratio comes somewhere around the 15 per cent mark.

But when you get down to cases—the more realistic expectations based on early season performance—you are bound to find some diversity of opinion. This year more of our department store executives expected to beat last year's record by a small percentage. Almost everyone saw an excellent chance that dollar sales would at least equal 1957. Only in an exceptional case or two was the thought expressed that it might be hard to repeat last year's performance for the whole Christmas season.

business review
FEDERAL RESERVE BANK OF PHILADELPHIA

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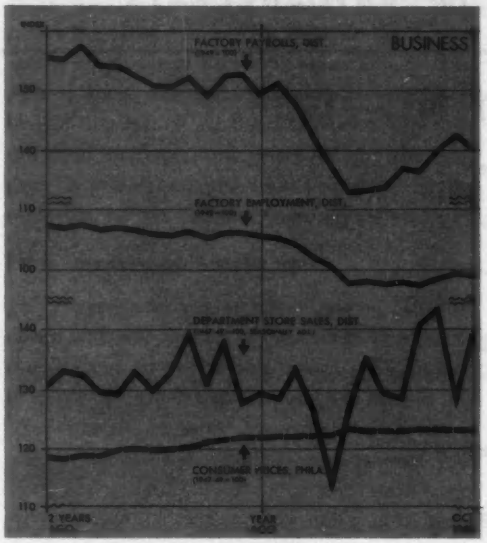
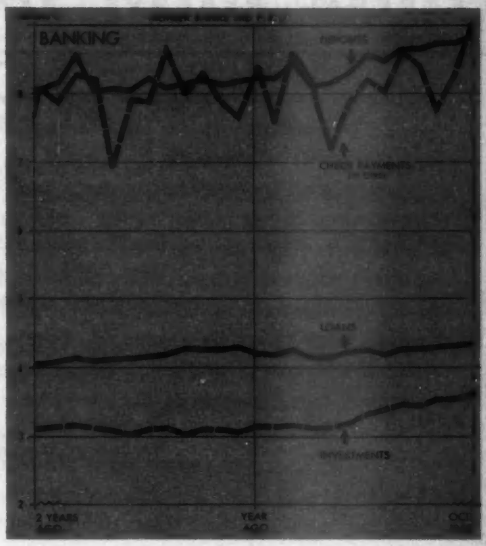
APRIL	On Vacation The Talk of "Automobile Row"
MAY	Still on Vacation Capital Spending: Still Falling
JUNE	Borrowing from the Federal Reserve Bank—Some Basic Principles Small Business in an Age of Big Business
JULY	P.I.D.A.—A Look at State-wide Ventures in Industrial Development Philadelphia Business Trends Since Mid-1957 Vacation Business
AUGUST	The New Era in Eating Housing Prospects Are Improving
SEPTEMBER	Penn's Woods Third District Banking
OCTOBER	How Liquid Are the Banks? Third District Farmers Have a Better Year
NOVEMBER	Capital Spending: Down Again The Clothes-Buying Man: More Lemming Than Peacock?
DECEMBER	Health Isn't Free A New Capital Pipeline for Small Business Christmas Buying Looks Good

FOR THE RECORD...





Factory Payrolls and Employment Revised

SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Oct. 1958 from		10 mos. 1958 from year ago	Oct. 1958 from		10 mos. 1958 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production	— 1	— 8	—12	+ 3	— 2	— 8
Construction contracts	+46	+103	+ 5	+ 3	+27	+ 9
Coal mining	0	—13	—23	+ 3	—14	—21
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	— 6	— 7	— 1	— 7	— 9
Factory wage income	— 1	— 6	— 9	....	....	....
TRADE*						
Department store sales	+ 9	+ 9	0	0	+ 5	— 1
Department store stocks	+ 2	+ 1	....	+ 1	— 2	....
BANKING (All member banks)						
Deposits	+ 1	+ 7	+ 5	+ 1	+ 7	+ 6
Loans	0	+ 3	+ 1	+ 1	+ 2	+ 2
Investments	+ 1	+15	+10	+ 1	+17	+13
U.S. Govt. securities	+ 1	+13	+ 7	+ 1	+17	+12
Other	+ 1	+21	+18	+ 1	+17	+16
Check payments	+ 9‡	+ 8‡	+ 2‡	+ 9	+ 4	+4
PRICES						
Wholesale	....	....	....	0	+ 1	+ 1
Consumer	0‡	+ 1‡	+ 2‡	0	+ 2	+ 3

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

LOCAL CHANGES	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks			
	Per cent change Oct. 1958 from		Per cent change Oct. 1958 from		Per cent change Oct. 1958 from		Per cent change Oct. 1958 from		Per cent change Oct. 1958 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley	0	— 9	+ 1	—11	....	....	....	....	+ 2	— 7
Harrisburg	+ 1	—11	— 2	—17	....	....	....	....	+ 5	+ 5
Lancaster	0	— 3	+ 2	+ 1	+24	+37	+11	+ 4	+ 6	+ 8
Philadelphia	+ 1	— 5	— 2	— 1	+ 5	+ 8	+11	+ 2	+12	+ 7
Reading	0	— 6	+ 1	— 4	— 3	+ 8	+19	+ 2	+11	+ 1
Scranton	+ 1	— 6	+ 4	— 3	+13	+10	+13	+ 2	+ 9	+ 4
Trenton	— 5	—20	— 5	—17	+ 4	+10	+20	+ 6	+ 2	— 1
Wilkes-Barre	0	— 5	+ 1	— 2	— 2	+ 2	+10	— 5	+ 7	+ 1
Wilmington	— 5	— 9	— 1	— 7	+ 4	+ 7	+15	+ 1	0	+31
York	— 2	— 4	+ 2	0	+ 9	+ 9	+10	+ 2	+ 4	0

*Not restricted to corporate limits of cities but covers areas of one or more counties.